Remarks of Michael E. Mack
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Making Michigan's Business Tax Environment More Competitive for Manufacturers

Chairpersons Cassis and Sheen, and other distinguished members of the Senate Finance and House Taxation Committees, good morning, and thank you for providing General Motors Corporation with the opportunity to appear and offer remarks today regarding the business tax environment in the State of Michigan.

My name is Michael Mack, and I am General Director of Indirect Taxes and Global Customs for General Motors Corporation. I am here to support S.B. 296 and H.B. 4476 because this proposed legislation would provide truly meaningful business tax relief for major manufacturers in this state.

During the past eighteen months, General Motors has been asked by two panels of Michigan legislators, and by the Granholm administration, about the features of the state's business tax environment that are hostile to new investment by manufacturers, especially by the auto companies. Our response was that the Single Business Tax, which can produce a significant tax liability without regard to profits or the ability to pay, coupled with the tax on tangible personal property, particularly on machinery and equipment, results in a tax environment for manufacturers that is not competitive with other states or with countries that compete for manufacturing investment around the globe.

Specific suggestions that we made for improving the Michigan business tax environment for manufacturing investment included (1) a repeal of the personal property tax on machinery and equipment, (2) changing the SBT apportionment formula so it is based on 100% sales weighting, and (3) changing the SBT tax base to give greater weight to the income component and to the ability to pay.

We believe that provisions of S.B. 296 and H.B. 4476 address the issues that we raised, and provide a significant first step towards achieving a tax environment that will attract additional capital investment to Michigan. More specifically,

(1) We support the reduction in the SBT tax rate form 1.9% to 1.2% because this reduction will benefit every entity that pays the SBT and will provide needed tax relief,

(2) We support the move to 100% sales as the basis for apportioning the SBT tax base because this will encourage investment in the state and will provide a tax benefit to

companies that have a large portion of their property and payroll in Michigan, and

(3) We support the adoption of the 35% credits against SBT liability for tax paid on manufacturing personal property and research and development personal property because they will provide significant relief from a burdensome tax that falls most heavily on manufacturers, and makes Michigan uncompetitive with the rest of the world for new capital investment.

There are numerous other tax changes proposed as part of the restructuring package, some of which have a beneficial effect on our tax liability, and others of which have a negative effect on our liability. These changes are included in the package with the understanding that, taken together with the other changes already mentioned, they produce a revenue-neutral result for the state budget – an outcome we understand is critical to enactment of the package. Accordingly, we support the total tax re-structuring plan as a significant and necessary improvement to the Michigan business tax environment.

This is not to say that past changes by the Michigan legislature and executive office to the Michigan business tax structure have not improved matters. Clearly, changes such as the shift to 90% weighting of sales in the SBT apportionment formula, SBT tax rate reductions, and the availability of SBT credits for qualifying investments under the MEGA program, have all made the tax climate better for manufacturers than it would be without them.

Nonetheless, GM's internal studies have consistently shown that, regardless of the metrics used, Michigan remains for us the most expensive place in which to make capital investments. In comparisons routinely performed among Michigan, Ohio and Indiana, for example, a dollar of new investment in Michigan has consistently produced a greater tax liability than in either of the other two states. This has been true even when the benefits of Michigan's property tax abatement law have been taken into account and the tax abatement laws of the other states have not been taken into account.

This result may appear inconsistent with recent independent studies, including one by the Council on State Taxation, that show Michigan as an average tax cost state for business. While this may well be true for business as a whole, a closer examination of the various business sectors included in the study shows that durable manufacturing bears a disproportionate portion of the business tax burden. In fact, this sector, which includes autos, is subject to a tax burden about two-thirds higher than the average business tax burden in the state. This disparate treatment is not some recent phenomenon; it has persisted for many years, and results in large part from the fact that the high-value jobs provided, and the high value investments made, by manufacturers are penalized under the SBT and the tax on tangible personal property.

If the State of Michigan is serious about creating a tax environment that will encourage manufacturing investment, and promote job creation and preservation, then it should revise its business tax structure to provide significant, targeted tax relief for the manufacturing sector now, not sometime in the future. We believe that S.B. 296 and H.B. 4476 would provide meaningful progress in this direction and, therefore, we support enactment of this legislation.

Thank you for the opportunity to present our views. I would be pleased to respond to any questions that you may have.

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